

RUSSELL RURAL WATER DISTRICT NO. 3
Susank, Kansas

FINANCIAL STATEMENTS
Years Ended December 31, 2011 and 2010

VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Manhattan, Kansas 66502

Russell Rural Water District No. 3
Financial Statements
Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Russell Rural Water District No. 3
Susank, Kansas

We have audited the accompanying balance sheet of Russell Rural Water District No. 3, Susank, Kansas, as of December 31, 2011 and 2010, and the related statement of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Russell Rural Water District No. 3, Susank, Kansas, as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

VONFELDT, BAUER & VONFELDT, CHARTERED
Certified Public Accountants

February 14, 2012

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
BALANCE SHEET
December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 64,363.32	\$ 41,818.05
Certificates of Deposit (Note 2)	73,550.95	73,071.32
Accounts Receivable - Trade (Note 3)	1,015.44	1,671.31
Interest Receivable	<u>151.56</u>	<u>253.11</u>
 Total Current Assets	 <u>\$ 139,081.27</u>	 <u>\$ 116,813.79</u>
 PROPERTY, PLANT AND EQUIPMENT: (Note 5)		
Water System	\$ 1,349,062.45	\$ 1,349,062.45
Building	43,270.10	43,270.10
Office Equipment	14,734.56	14,734.56
Vehicle	35,625.06	35,625.06
Land	5,038.83	5,038.83
Less - Accumulated Depreciation & Amortization	<u>(1,023,329.01)</u>	<u>(984,908.29)</u>
 Net Property, Plant and Equipment	 <u>\$ 424,401.99</u>	 <u>\$ 462,822.71</u>
 Total Assets	 <u>\$ 563,483.26</u>	 <u>\$ 579,636.50</u>

The accompanying notes are an integral part of these financial statements

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
BALANCE SHEET
December 31, 2011 and 2010

LIABILITIES AND EQUITY

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 23,331.60	\$ 16,035.52
Notes Payable - Current (Note 6)	5,598.61	7,262.98
Sales and Payroll Taxes and Other Payables	<u>2,617.53</u>	<u>1,268.08</u>
 Total Current Liabilities	 <u>\$ 31,547.74</u>	 <u>\$ 24,566.58</u>
 LONG TERM LIABILITIES:		
Notes Payable - Long Term (Note 6)	<u>\$ 0.00</u>	<u>\$ 5,598.61</u>
 Total Long-Term Liabilities	 <u>\$ 0.00</u>	 <u>\$ 5,598.61</u>
 Total Liabilities	 <u>\$ 31,547.74</u>	 <u>\$ 30,165.19</u>
 EQUITY:		
Contributed Capital	\$ 300,000.00	\$ 300,000.00
Retained Earnings		
Reserved for Note Repayment	5,598.61	0.00
Reserved for Future Liabilities (Note 7)	1,000.00	1,000.00
Unreserved	<u>225,336.91</u>	<u>248,471.31</u>
 Total Retained Earnings	 <u>\$ 231,935.52</u>	 <u>\$ 249,471.31</u>
 Total Members' Equity	 <u>\$ 531,935.52</u>	 <u>\$ 549,471.31</u>
 Total Liabilities and Equity	 <u>\$ 563,483.26</u>	 <u>\$ 579,636.50</u>

The accompanying notes are an integral part of these financial statements

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES:		
Sale of Water	\$ 351,605.78	\$ 344,788.09
Refunds & Dividends	1,261.41	1,943.63
Reimbursements	65.00	25,676.00
Miscellaneous Income	<u>1,967.71</u>	<u>2,944.12</u>
 Total Operating Revenues	 <u>\$ 354,899.90</u>	 <u>\$ 375,351.84</u>
OPERATING EXPENSES:		
Salaries	\$ 55,517.15	\$ 53,351.79
Contract Labor	2,060.00	1,700.00
Depreciation	38,420.72	38,593.96
Dues	1,314.00	1,303.60
Building Maintenance	184.64	165.00
Insurance	20,883.71	17,843.95
Lab Fees	192.00	216.00
Legal and Accounting	5,328.61	4,830.00
Mileage	804.87	453.10
Miscellaneous	1,946.11	4,959.59
Office Supplies	1,070.44	740.96
Printing and Postage	1,820.55	2,067.04
Payroll Tax	5,439.85	4,222.79
Purchase of Water	158,415.08	165,815.00
Repairs and Maintenance	37,629.40	48,805.32
Sales Tax	492.73	331.78
Supplies	22,712.91	21,284.74
Training and Conferences	145.00	165.00
Utilities	11,362.61	10,558.11
Vehicle Expense	10,581.47	12,735.85
Water Protection	<u>2,100.86</u>	<u>1,678.02</u>
 Total Operating Expenses	 <u>\$ 378,422.71</u>	 <u>\$ 391,821.60</u>
 Net Income (Loss) from Operations	 <u>\$ (23,522.81)</u>	 <u>\$ (16,469.76)</u>
OTHER INCOME AND EXPENSES:		
Interest Income	\$ 488.16	\$ 969.32
Sale of Benefit Units	6,000.00	8,000.00
Interest Expense	<u>(501.14)</u>	<u>(3,107.00)</u>
 Total Other Income (Expense)	 <u>\$ 5,987.02</u>	 <u>\$ 5,862.32</u>
 NET INCOME (LOSS)	 <u>\$ (17,535.79)</u>	 <u>\$ (10,607.44)</u>

The accompanying notes are integral part of these financial statements.

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
STATEMENT OF CHANGES IN RETAINED EARNINGS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Balance, Beginning of Year	\$ 249,471.31	\$ 260,078.75
Net Earnings (Loss)	<u>(17,535.79)</u>	<u>(10,607.44)</u>
Balance, End of Year	<u>\$ 231,935.52</u>	<u>\$ 249,471.31</u>

The accompanying notes are an integral part of these financial statements

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flow From Operating Activities</u>		
Net Income	\$ (17,535.79)	\$ (10,607.44)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	38,420.72	38,593.96
(Increase) Decrease in:		
Trade Receivables	757.42	1,295.06
Increase (Decrease) in:		
Accounts Payable	7,296.08	(860.23)
Accrued Liabilities	<u>1,349.45</u>	<u>261.23</u>
Net Cash Provided By Operating Activities	<u>\$ 30,287.88</u>	<u>\$ 28,682.58</u>
<u>Cash Flow From Investing Activities</u>		
(Purchase) Sale of Investments	<u>\$ (479.63)</u>	<u>\$ 37,262.40</u>
Net Cash Provided By Investing Activities	<u>\$ (479.63)</u>	<u>\$ 37,262.40</u>
<u>Cash Flow From Financing Activities</u>		
Debt Reduction	<u>\$ (7,262.98)</u>	<u>\$ (115,662.52)</u>
Net Cash Provided By Financing Activities	<u>\$ (7,262.98)</u>	<u>\$ (115,662.52)</u>
Net Increase (Decrease) In Cash	\$ 22,545.27	\$ (49,717.54)
Cash At Beginning Of Year	<u>41,818.05</u>	<u>91,535.59</u>
Cash At End Of Year	<u>\$ 64,363.32</u>	<u>\$ 41,818.05</u>
<u>Supplemental Disclosures</u>		
Interest Paid	<u>\$ 501.14</u>	<u>\$ 3,107.00</u>

The accompanying notes are an integral part of these financial statements

RUSSELL RURAL WATER DISTRICT NO. 3
SUSANK, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Russell Water District No 3 is organized and established under the provisions of K.S.A 82a-612 of the Kansas Statutes for the purpose of constructing and operating a water supply distribution system serving owners and occupants of land located within the District. The organization is a quasi governmental.
- B. The records of Russell Rural Water District No. 3 are reported on the accrual basis of accounting. Revenues are recognized in the accounting period when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized whenever any indebtedness is created.
- C. Property, plant and equipment is recorded at cost. When individual items are sold or disposed of, the related cost and accumulated depreciation is removed and the resulting gain or loss is included in the results of operations. The straight-line method is used in computing depreciation based on the useful lives of the individual assets. Major repairs are (including capital leases) capitalized, other maintenance and repair items are expensed as incurred.
- D. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Note 2 - CERTIFICATES OF DEPOSIT

Certificates of deposit totaling \$73,550.95 bearing interest rates ranging from .25% to .55% and have maturities ranging from twelve to eighteen months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2011 are based on deposits made during the following January plus estimated amounts due on delinquent accounts. Water users read their own water meters on the first day of each month or the earliest date thereafter, compute the amount due, and remit payment for the prior months water usage to the District no later than the fifth day of the month. A twenty percent late charge is assessed after the fifteenth of the month. Each account is assessed a \$29.00 debt service fee per month, plus tax, regardless of water usage. Late charges and debt service fees are included in the sale of water. Meter amounts are verified by Water District staff annually.

Note 4 - CASH & CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Note 5 - PROPERTY, PLANT & EQUIPMENT

A summary of property, plant and equipment at December 31, 2011 and 2010, is as follows:

	2011	2010
Water System	\$ 1,349,062.45	\$ 1,349,062.45
Building	43,270.10	43,270.10
Office Equipment	14,734.56	14,734.56
Vehicle	35,625.06	35,625.06
Land	5,038.83	5,038.83
	<u>\$ 1,447,731.00</u>	<u>\$ 1,447,731.00</u>

Depreciation expense for the years ended December 31, 2011 and 2010, was \$38,420.72 and \$38,593.96, respectively.

Substantially all property, plant & equipment is held as collateral for the District's long-term debt.

Note 6 - NOTES PAYABLE

Notes payable are as follows:

<u>Loan</u>	<u>Original Loan</u>	<u>Date</u>	<u>Period</u>	<u>Interest Rate</u>
First Kansas Bank	21,488.00	09/30/2010	3 Years	5.24%
			<u>Outstanding Balance 2011</u>	<u>Outstanding Balance 2010</u>
First Kansas Bank			\$ 5,598.61	\$ 12,861.59
Total Notes Payable			\$ 5,598.61	\$ 12,861.59
Less - portion due within one year			<u>5,598.61</u>	<u>7,262.98</u>
Total Long-Term Notes Payable			<u>\$ 0.00</u>	<u>\$ 5,598.61</u>

Interest expense for the year ended December 31, 2011 and 2010 was \$501.14 and \$3,107.00, respectively, none of which was capitalized.

Notes payable mature during the years ended December 31, in the following amounts:

<u>Year</u>	<u>Principal Due</u>
2012	<u>\$ 5,598.61</u>
Total	<u>\$ 5,598.61</u>

Note 6 - NOTES PAYABLE (Cont'd.)

Notes payable are secured by the District's property, plant, and equipment. In addition, the District has pledged the revenue derived from operation of the water system to pay the interest and principal on the notes.

Note 7 - RESERVED AND RESTRICTED ASSETS

The District has pledged a \$1,000 investment to the Kansas Department of Human Resources as bond against future liabilities of the District. Interest earned on this investment is deposited into the District's operating account.

Note 8 - RELATED PARTY TRANSACTIONS

All board members and management of the District are also benefit unit owners and customers.

Note 9 - SUBSEQUENT EVENTS

The District has evaluated events subsequent to the balance sheet date through February 14, 2012, and does not believe any events have occurred which effect the financial statements as presented.